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EAT.N - Q4 2021 Brinker International Inc Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Brinker International Q4 2021 Earnings Call. (Operator Instructions) It is now my pleasure to turn the floor over to your host, Mika Ware. Ma'am, the floor is yours.

Mika Ware - *Brinker International, Inc. - VP of Finance & IR*

Thank you, Kate, and good morning, everyone. Welcome to the earnings call for Brinker International's Fourth Quarter of Fiscal 2021. With me on today's call are Wyman Roberts, Chief Executive Officer and President; and Joe Taylor, our Chief Financial Officer. Results for the quarter were released earlier this morning and are available on our website at brinker.com. As usual, Wyman and Joe will first make prepared comments related to our operating performance and strategic initiatives, then we will open the call for your questions.

Before beginning our comments, please let me remind everyone of our safe harbor regarding forward-looking statements. During our call, management may discuss certain items, which are not based entirely on historical facts. Any such items should be considered forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All such statements are subject to risks and uncertainties, which could cause actual results to differ from those anticipated. Such risks and uncertainties include factors more completely described in this morning's press release and the company's filings with the SEC.

And of course, on the call, we may refer to certain non-GAAP financial measures that management uses in its review of the business and believes will provide insight into the company's ongoing operations.

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And with that said, I will turn the call over to Wyman.

Wyman T. Roberts - *Brinker International, Inc. - CEO, President & Non-Independent Director*

Thanks, Mika, and thanks, everyone, for joining us this morning. Brinker's fourth quarter was one of our more profitable quarters in recent history, marking a solid finish to a successful, albeit unusual year. Underpinning our fiscal '21 results is a consistent strategy that differentiates us in the marketplace and an exceptional team that executes every day in our restaurants.

We were already growing sales and taking share before the pandemic hit, and we made the decision to lean further into our strategy of providing convenience, value and a great guest experience by doubling down on third-party delivery and improving our take-out systems.

In a year of social distancing, our teams came together safely to lead the industry on traffic and regained positive sales momentum. In a year of closures and shutdowns, we opened our first virtual brand in over 1,000 restaurants by leveraging our technological infrastructure, It's Just Wings surpassed our $150 million target in our company-owned restaurants. And along with the support of our franchise partners, It's Just Wings became more than $170 million business in the U.S., with many of our international franchisees also now operating the brand.

In a year that started with unemployment near record highs, we kept all our management teams employed and paid them solid bonuses. We put a retention plan in place for our strongest team members to encourage them to stay with us as the staffing environment continued to change through the spring and summer.

In a year where gatherings and special occasions at Maggiano's were restricted, Steve and the team restructured the value proposition, the takeout proposition and reengineered the Heart of House. The brand is already delivering much more profitable sales as volumes come back and guests have responded very positively to the changes.

In a year, we thought we might have to borrow money more to survive the pandemic, we paid down our debt by over $300 million and we're committed to continuing that trend this year. And in a year where we worried we wouldn't be able to support our charitable partners at levels we're used to, our team set a record, raising more than $10 million for St. Jude during an exceptionally critical time for their patients and families. Our teams have raised nearly $90 million for St. Jude's patients during our partnership.

Thanks to the strength of our operations team, we've emerged an even stronger business than before. In fact, we've positioned ourselves to invest aggressively to grow this business during fiscal '22 and beyond and to keep our balance sheet strong. The ability to make these kinds of investments starts with owning our restaurants; having the opportunity to leverage our fleet and realize the full potential -- the full profitability of our efforts.

The pandemic solidified our commitment to corporate ownership. Despite the challenges of owning restaurants like dealing with labor issues and commodity cycles because ownership gives us the scale to effectively manage the issues, it allows us to steward our brands consistently and have control over the investments we make to grow the business. This year, our investments will target more ways to offer convenience, value and a great guest experience. By doubling our pipeline of new restaurant openings, reimagining to keep our assets strong and vibrant, accelerating our technology advantages and expanding our portfolio of brands.

Currently, we're in the middle of rolling out our second virtual brand, Maggiano's Italian Classics. It's now in over 250 restaurants today and doing very well. This one will be a slower roll for a couple of reasons. It's a little more complex. And since we're back to fully operational dining rooms, we're being very intentional about the experience for our operators and our guests.

We're excited about it. We're getting great guest feedback, and we're anticipating being in restaurants 900 restaurants by the end of the fiscal year. We're also investing in both takeout and delivery by pursuing opportunities to increase visibility and drive awareness of these channels across all 4 of our brands.

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We recently implemented technology enhancements to our curbside takeout system, which is already simplifying the operational side of the business and improving guest metrics. It's Just Wings has gone live with a website that offers online ordering for takeout as well as delivery, and we're excited about the growth potential for the brand.

These technology investments are helping us do a better job handling the increased mix of off-premise business from pre-pandemic mid-teens to what's now more than 30%, and as well as leveraging the full capacity of our assets with very little incremental capital. It isn't every day you more than double your off-premise business and add a couple of brands to your base. It only happens well with best-in-class systems to enable it and a strong team to execute it.

Our team is critical to our success, and we take the current staffing environment very seriously. We've executed a full-court press to hire, train and retain our talent. While the challenges came fast and furious for all of us in March, I'm pleased with the progress we've made. There are still opportunities, but isolated to specific trade areas, and we're confident we'll get these staffing challenges resolved in the near future.

To further support our operators, we're rolling out a new service system with handheld devices that we've worked on for 3 years to perfect. It isn't as easy as some might claim it. To implement a system that operators can execute during high volume that saves labor and still delivers a great guest experience.

Ours is also putting more money in our team members' pockets, so they're staying with us longer, which is crucial in this environment. It's in more than 250 restaurants now, and we anticipate full implementation by November.

And finally, because we chose not to take price at Chili's during fiscal '21, we have room to take some price this year as consumers return to work and income levels return to normal. We're evaluating how we'll address those opportunities, especially in channels like delivery while all while protecting our industry-leading value proposition.

We spent last year learning to run a much more efficient and robust revenue-generating model. We're spending this year and beyond capitalizing on the opportunities for growth that are not just available, but achievable for Brinker. There's nobody who's doing this better than this team, and I'm honored to be part of their story.

Now I'll turn the call over to Joe. Joe?

Joseph G. Taylor - *Brinker International, Inc. - Executive VP & CFO*

Thanks, Wyman, and good morning, everyone. Let me continue our prepared comments by providing some additional insight to the fourth quarter results released this morning and then share some limited thoughts on our current expectations of certain aspects of the overall fiscal year plan. As Wyman indicated, the fourth quarter was a strong finish to our fiscal year 2021. For the fourth quarter, Brinker reported total revenues of $1.009 billion, with a consolidated comp sales of 65%.

In keeping with our ongoing strategy, the majority of these sales were driven by traffic, up 53% for the quarter, a 10% beat versus the industry on a 2-year basis. These sales translated into solid EPS with fourth quarter adjusted earnings of $1.68.

As noted in this morning's press release, the fourth quarter included an extra operating week, our 53rd week, which contributed approximately $70 million to total revenues, 90 basis points to restaurant operating margin and $0.34 to earnings per share.

At the brand level, Chili's comparable restaurant sales were positive 8.5% versus the fourth quarter of fiscal year '19, which we believe is the more appropriate comparison for the quarter. Additionally, on an absolute dollar basis, the fourth quarter was Chili's largest sales quarter on record, topping $900 million in total revenue. Maggiano's, while down 18% compared to fourth quarter of fiscal '19, made very solid progress with its recovery curve and built positive momentum to carry into the current fiscal year.

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Moving down the P&L. Our fourth quarter restaurant operating margin was 16.9%. Adjusting this performance for the impact of the 53rd week, the resulting 16% operating margin still represents a material year-over-year improvement and more importantly was a 110 basis point margin improvement versus the pre-COVID fourth quarter of fiscal '19.

Food and beverage expense for the fourth quarter as a percent of company sales was 20 basis points unfavorable as compared to prior year. This variance was driven -- primarily driven by increased commodity costs, particularly for chicken and pork products.

Labor expense for the quarter, again, as a percent of company sales was favorable 240 basis points versus prior year, primarily driven by the extra week sales leverage versus fixed labor expenses and the slower reopening pace in a couple of high wage states such as California.

During the quarter, our managers focused considerable efforts towards staffing our restaurants to support the solid demand for our brands. Scale clearly matters in this area, as they were effectively supported by our experienced HR teams who help deploy hiring tools and events to assist in the process. Given the more challenging hiring environment, the dynamic of hiring, training and retaining team members resulted in an increase in labor inflation in the mid-single-digit range, a dynamic we expect to continue in the near term.

To reward our operator's strong performance throughout the fiscal year, we also chose to further invest in our hourly team members and managers through a variety of incremental bonus structures, totaling approximately $4 million for the quarter beyond our normal payout formulas.

This incremental investment impacted quarterly EPS by approximately $0.06 and increased labor expense margin by roughly 40 basis points, well worth the benefits it will accrue. Restaurant expense was 830 basis points favorable year-over-year as we fully leveraged many of our fixed costs, particularly from the benefit of the additional week in the quarter.

The continued positive operating performance did result in a meaningful increase in our quarterly tax rate, 15% for the quarter, which includes a catch-up adjustment to increase the annual income tax accrual. This increase negatively impacted fourth quarter EPS approximately $0.06.

Our operating cash flow for the fourth quarter and fiscal year remained strong with $101 million and $370 million for those time frames, respectively. EBITDA for the quarter totaled $144 million, bringing the fiscal year EBITDA total to $368 million.

During the fourth quarter, we continued to use a significant portion of our cash flow to further reduce revolver borrowings. By year-end, our revolver balance was reduced to $171 million. This decreased our total funded debt leverage to 2.5x and our lease adjusted leverage to 3.6x at year-end.

Speaking of the revolver, we have reached agreement on terms and conditions for a new revolving credit facility with our bank group. The new $800 million 5-year revolver includes improved pricing allows the return of restricted payments and provides ample liquidity and flexibility to support our growth strategies. Our Board of Directors has also reinstated the share repurchase authorization that was suspended in the early days of the pandemic with an authorization amount of $300 million.

Now turning to our outlook for fiscal year '22. At this point, with the volatility and unknowns of the current operating environment, we can only share some high-level thoughts for certain annual metrics. For example, we expect commodity and labor inflation percentages each in the mid-single digits with commodity inflation towards the lower end of the range. CapEx of $155 million to $165 million, an annual effective tax rate of 14% to 15%, and weighted annual share count of 45 million to 47 million shares.

As we now move ahead with fiscal 2022, the reality of the pandemic with all its uncertainties is still part of our everyday operations. That being said, all now 4 of our brands are well prepared and positioned to perform in whatever environment they face throughout the year. We are very proud of their efforts during the past fiscal year and are confident of the experiences, the growth and the strength of their business models will continue to deliver quality results as we move forward from here.

With my comments now complete, let's turn it back to Kate to move on to questions. Kate?

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QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question today is coming from David Palmer at Evercore ISI.

David Sterling Palmer - *Evercore ISI Institutional Equities, Research Division - Senior MD & Fundamental Research Analyst*

I guess I'll get one out of the way. Your quarter-to-date sales looks pretty good, and I would think that would give you confidence. I'm wondering if you're seeing some weekly sales data or perhaps some regions that are giving you more pause with regard to the Delta variant? And I have a quick follow-up on the labor line.

Wyman T. Roberts - *Brinker International, Inc. - CEO, President & Non-Independent Director*

David, Wyman. Yes, I mean, obviously, you saw the numbers. We had a really good quarter, especially at Maggiano's, and we started the fiscal year in July, really pleased with how Maggiano's is kind of moving forward and starting to see some of those pieces of the business come back that were most kind of impacted by the pandemic in banquets and catering. So some good progress through.

But as the Delta variant has kind of picked up some steam here in the last few weeks, we have seen some softening. We're still above the F '19 kind of base. But with the uncertainty of the pandemic, we're just unsure, right? And I guess, from my perspective, I was probably a little optimistic last fall and was surprised by what happened in November and December.

Well, I don't think that's where we're headed. We're just going to be a little more cautious as we work through this variant, with Delta and see where it's at. There has been a little -- it tends to be a little more regional. Again, the overall numbers are still positive, and we're comfortable our strategies are all working, so cease the external factors, primarily, I mean, that's the pandemic that we're just still not quite sure what's -- what the time line is going to be before this thing gets put back into a place where we're not seeing consumers having to react and potentially more regulation put on restaurants. Right now, there's no distancing or in your -- but we're back in masks in some towns and so we're just being cautious.

David Sterling Palmer - *Evercore ISI Institutional Equities, Research Division - Senior MD & Fundamental Research Analyst*

Makes sense. And I just wanted to ask on labor costs, you have 2 parts. You have hours and wage inflation on any modeling. I'm trying to think about a way that we can perhaps model this for fiscal '22 based on how you gave a mid-single-digit type inflation. Your labor costs were up, mid-single digits in the quarter. You say that that's going to be roughly the case in fiscal '22. That's from just a wage inflation standpoint. The labor cost per restaurant was up 3% versus the pre-pandemic fiscal 4Q 2019 per restaurant on a week adjusted basis.

And I'm wondering, can we think about that? Can we think about a sort of how much your labor cost per restaurant would be versus pre-pandemic as a way to perhaps model this into '22, assuming that sales are roughly equal on a multiyear basis to the type of momentum you had in that quarter? Any help on that would be great?

Joseph G. Taylor - *Brinker International, Inc. - Executive VP & CFO*

Yes, David, I think that is a decent proxy. Again, the top line piece of the equation does matter when we look at the overall labor. So as you commented, keeping that consistent, I think I would expect kind of the labor dynamics to remain relatively consistent as we move forward from here. You could get some variance if you get a top line change that's not quite expected in the numbers, depending on where the consumer goes.

We're seeing a little bit of what I would consider to be transitory costs in that, too, I mentioned that we made a decision in the fourth quarter, which I think was well deserved to create some incremental bonus structures. That was about a 40 basis points increase to that labor margin expense, as I mentioned in my script.

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But if I also look at some of the -- what I consider to be a little more transitory costs like, there is some incremental overhead that's being used in the system over time -- excuse me, overtime. There's a little bit -- there is some incremental training. I mean one of the things that goes with the cycle we're in right now is a lot of new team members. And with that goes some training costs you want to have that to improve your productivity as you move forward.

Both of those 2 incremental pieces are roughly about a combined 60 basis points to that margin, too. So I think those probably remain in place for some period of time. But I think as we get more balance back into the labor system as you improve the productivity through the training, you'll start to see some of those incremental pieces come out of the system, I would expect in the second half of the year. So with that additional detail, I think fourth quarter is not a bad proxy for the environment that we're going to be in here for the short run.

Operator

Our next question today is coming from Chris O'Cull at Stifel.

Christopher Thomas O'Cull - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Analyst*

Wyman, can you give some more details about what you've seen in the stores with the Maggiano's Italian Classics. I'm just curious if you're seeing maybe sales lift similar to It's Just Wings? Or is the margin structure similar? And maybe what makes it more complex for the restaurants to execute?

Wyman T. Roberts - *Brinker International, Inc. - CEO, President & Non-Independent Director*

Sure, Chris. I'll give you some. I'm going to be a little bit guarded just for competitive reasons. But -- so what's got us excited about Maggiano's Classics, it's first the quality of the product. Before we put the Maggiano's brand on a virtual brand, we wanted to make sure that we could deliver against the standards, and we've done that. The team has done a great job developing a really great lineup. It is a little bit more complicated than just our wings product because it's got a little more breadth to the offering.

And so we're making sure that as we bring it to the restaurants, we're training, we're setting up that part of the line, if you will, to support this business and not be detrimental to what we're doing in our dining rooms in Chili's every day. So that's what's got us excited. It's also -- it's a higher check average product and so we love the fact that we're -- this isn't -- It's Just Wings, it's more of a value brand, killer wings at stupid price is our tagline. So with Maggiano's, we get a nice -- a much nicer -- a much bigger check average. So that's encouraging to us.

We like the way the consumers are accepting the product. The demand looks good, and we're executing at a high level. So all those things are positive for us. The thing that we love about these 2 virtual brands in conjunction is that they do work against different targets. So the wings guest is not the same as the Maggiano's Italian Classics guest for the most part. There's a -- and so that allows us also to see when the push comes for wings, it comes at a different day part, it tends to come on to weekends. It tends to come with game nights. Maggiano's Italian Classics one of its busiest day parts is Sunday. It's more of a family offering.

And so those are the things that have us excited about rolling this second virtual brand. We're not looking to have a huge portfolio of virtual brands, we're very limited. These 2 were probably going to be focused for a while. We think they've got -- we've always said we weren't going to put a brand out there that didn't have at least $100 million worth of sales potential and we'll build from there. And we think both of these brands, obviously, wings has proven that. And we think Maggiano's Classics will build through the year as we roll this thing out over the next few quarters.

Christopher Thomas O'Cull - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Analyst*

Okay. That's helpful. And Joe, just one other question. Could you give a little bit more color on what's driving the higher CapEx next year? And is that range a good run rate going forward? Or are there some nonrecurring investments planned for '22?

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Joseph G. Taylor - *Brinker International, Inc. - Executive VP & CFO*

No. Actually, I'll kind of go in reverse order. That is a good proxy, I think, for how we will look at CapEx going forward. We're first and foremost, again, from that strong cash generation going to invest aggressively back into the business. I think we've talked on previous calls that what we really like about the transformation of the strategy is the organic growth story that it's starting to develop as we kind of move forward. One of the bigger deltas you see going into this next year is that pipeline of new restaurant development that is starting to take place.

We obviously had a pause during the pandemic from a real estate standpoint. That's now back online very fully and very aggressively. In fact, we're moving -- our pipeline now north of 20 restaurants. That's not for fiscal year '22, those will start to really fall into place back half of this year and into the next year.

The rest of the -- we're going to continue to reimage. There's a little bit more spend on the reimage side of the equation again. Some of this is pause versus run rate. So you're really getting that back to a level that we had seen pre-pandemic. But you also have the typical investment back into the R&M side of the equation and technology.

Again, we talked about the benefits we're going to continue to accrue from technology, TSE was one Wyman talked about. So we're going to be pretty robust in continuing to invest at those levels. So those are the primary areas. And I think it is going to accrue to the organic growth story quite well as we move farther into this year and clearly, as we move into '23.

Operator

Our next question today is coming from Josh Long at Piper Sandler.

Wyman T. Roberts - *Brinker International, Inc. - CEO, President & Non-Independent Director*

No Nicole, no Josh, no love from Piper Sandler, all right? Moving on, Kate.

Operator

Your next question is coming from Jon Tower at Wells Fargo.

Jon Michael Tower - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

First, on the pricing side of the equation. Wyman, it did sound like earlier in the call, you were alluding to more pricing at Chili's in '22. Any chance you can give us some sort of degree of magnitude perhaps across the different channels? It sounded as if you're leaning a little bit more on the delivery side, taking a bit of pricing there.

And then a question for Joe, specifically on the labor side or how we should think about these handhelds that I believe, Wyman, you mentioned we're going to be in stores fully by November? How that's going to impact the P&L in terms of perhaps seeing better productivity? And then for labor hours moving a bit lower per store or perhaps an improvement in food waste? I'm just curious to hear your thoughts on how those handhelds might impact in store ops.

Wyman T. Roberts - *Brinker International, Inc. - CEO, President & Non-Independent Director*

Sure. Let me -- I'll hit a little bit probably at a higher level and Joe can give you more of the detail with regard to P&L impact. So I think from a pricing standpoint, obviously, we chose to take a different tack than many during the pandemic. We kind of held prices, and we wanted to just make sure

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that we were supporting consumers fully. And that contributed greatly to our traffic improvement relative to the category of double digits throughout the whole pandemic. And we're maintaining that solid traffic position as we kind of sit today.

And that's important to us, but we also realized with what we're seeing, obviously, with the inflation numbers that Joe shared with you that we're going to need to take some price. And we're probably going to have to price a little more than, historically, we've said 1% to 2%. We're going to probably go over that number this year. We're currently sitting what, Joe, at 1.5?

Joseph G. Taylor - *Brinker International, Inc. - Executive VP & CFO*

Right.

Wyman T. Roberts - *Brinker International, Inc. - CEO, President & Non-Independent Director*

And we're targeting probably to be over 2 here and there before the second quarter. So I don't know how much more we'll need in the back half, but we do feel comfortable that we've got room to take it to that mid- to low 2 range in the near term, and then we'll evaluate kind of how these. Again, it's a question everybody's got, right? Is it structural? Or is it transitory? And we just want to be cautious about how we deal with transitory costs, both with labor and with the commodities in building in pricing and wage -- just making pricing and wage decisions, you can't really back off.

So that's how we're doing it. Some of that shows up in some of these programs Joe talked about where we're more open to running maybe higher overtime or offering incentives to stay versus jumping on wage rates. So those are just some examples. With regard to the handheld devices, TSE, as we call it, obviously, what it does is it allows the front-of-the-house servers to be more efficient and then we run a server-runner model.

So right now, we don't -- we just run a straight server model. And so this allows us to get servers to be more efficient. They can take more tables and then they use the technology to bring food out of the back and run the drinks with the runners. And that just -- it's a more efficient model. It's also a better model from a guest perspective. We get better guest satisfaction scores. So that's why we've been working on it so diligently for 3 years. It's technology, though, so it has to be working on a Friday night under high volumes with -- when you're counting on WiFi and all this technology interface. And that's what we've just perfected really over the last year, and we're excited to finally get this thing rolled out company-wide by November.

Joseph G. Taylor - *Brinker International, Inc. - Executive VP & CFO*

And Jon, I'll just add to that, that, yes, there is -- there are benefits that will accrue from a productivity, from a labor management side of the equation. I do think you may see some other things. Again, we expect to see benefits to [GWAP]. I think you mentioned AVT, some things of that. And you can see that accrue at different points. Now what we haven't done in any of the limited thoughts that I provided you at this point on '22, if I'm not assuming a big delta based on TSE.

As we get that out there in that November -- by November time frame and start to utilize it and develop it, and I think we'll give you more insight at that point as to how we're seeing those numbers. But I'm not making the upfront assumption that I'm going to get x amount of great benefit in my current environment from a labor perspective.

Operator

Our next question today is coming from Brett Levy at MKM Partners.

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Brett Saul Levy - *MKM Partners LLC, Research Division - Executive Director*

I guess just continuing on, on the labor side. One of the strengths you've had has been your refined operations over the last few years and the implementation of technology, but it sounds like you're reintroducing more items, whether it's the 4 brands across the system now, bringing this technology on board, just the on and the off-premise balance. How should we think about where you are in terms of your staffing levels? What you still need to do to be able to add back either the labor hours or re-acquire additional bodies? And what do you think all of this could translate into from a longer term on your overall restaurant level margin?

Wyman T. Roberts - *Brinker International, Inc. - CEO, President & Non-Independent Director*

Well, let me just talk a little bit about staffing, Brett. So the staffing issue, it's a serious issue, right? I mean -- and it's an issue that we're all over because at the end of the day, it's about getting our teams, the resources they need to deliver great sales and a great guest experience without putting too much pressure on them. And the current environment, while things have gotten much better from where they were in March, there are still pockets out there where we don't have restaurants fully staffed.

And so what that means is it puts a lot of pressure on the management. It also is limiting some of our sales potential. And so our first priority right now is to just get everybody staffed up, get our management team stabilized and staffed and get that foundation strong. It's kind of a unique situation.

I've been in the business for a long time, have never quite experienced situation where we've got so many people unemployed and still such a challenge to find people to come and take really good jobs that we provide for the industry. So we're seeing progress, though, and we're making headway, but we still have some pockets where that's a challenge.

And so with that, I kind of leave it to Joe to answer the kind of the...

Joseph G. Taylor - *Brinker International, Inc. - Executive VP & CFO*

Yes. Brett, I think, again, I'm not seeing anything that is changing any of our thought processes around the long-term strategies and long-term opportunities from a margin stand. Those are all very much still intact. Again, as we've talked in the past, and we'll continue to talk going forward, I mean we think margin opportunity, first and foremost, is going to emanate from our ability to drive top line sales.

In the very short term, we're just trying to get a better feel for what that short-term dynamic is before I talk more specifically about things. But I still am very comfortable and confident in our ability to move margins wider as we kind of move forward with the strategy. The virtual brands, obviously, contribute meaningfully to that, but we are going to continue to grow the base to Chili's. And then we've already talked about the great improvements that Maggiano's making in their business model. So that will accrue to the benefit of margins as we go forward.

Again, I think the short-term dynamics of what labor and the commodity markets are ones we can deal with on an ongoing basis. We did not price last year. We're now bringing that level back into play. And when I think about the typical 1.5% to 2% pricing dynamic that we've talked about is kind of our strategic benchmarks. So I think that is at a level that allows us to manage both of those issues as we move forward.

At any given period of time, you may see us delta off of those 2, but clearly, price will be a big piece of the equation as we move back into, I think, that more normalized post-pandemic operations.

Brett Saul Levy - *MKM Partners LLC, Research Division - Executive Director*

And then just one quick follow-up on the pricing. How are you thinking about that from a qualitative and a quantitative basis? How much of that is going to be internal just based on what you see in your model and what you need versus analytics across the landscape and what you're seeing from the competitive set?

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Wyman T. Roberts - *Brinker International, Inc. - CEO, President & Non-Independent Director*

I think first and foremost, we look at on the need state side of the equation. The value positioning of both of our brands is an important dynamic, and we want to continue to maintain that. We're very aware of what's going on in the industry, and you're seeing some fairly aggressive moves on pricing. But I always go back to the strategy drives traffic. And this is a -- particularly a sector that has seen negative traffic trends really for a long period of time now. And that's not something that we want to fall into.

So we're going to be very focused on our ability to continue to drive traffic and how price may or may not intersect with that thought process. We've kept pricing power intact, and we will use pricing power, particularly as we go through this fiscal year. I think there is an ability to price and a permission in the short run to price. But you got to be careful about over time, getting out ahead of the consumer and changing the value dynamics of your brands. So we're -- so if I -- we lean very heavily in that equation, you just talked to the internal value perception and how we think about the need state of the longer-term strategy.

Operator

Our next question today is coming from Brian Mullan at Deutsche Bank.

Brian Hugh Mullan - *Deutsche Bank AG, Research Division - Research Analyst*

Just a question on It's Just Wings. You've spoken before about the takeout opportunity related to that. You've spoken about you need to generate awareness outside the delivery channel. So can you just talk about how you plan to do that going forward? And specifically, should we be thinking about any increased advertising budget here? And is this an initiative you plan to lean into in fiscal '22? Or is it a little bit further out on that front?

Wyman T. Roberts - *Brinker International, Inc. - CEO, President & Non-Independent Director*

Brian, Wyman. Yes, no, we're -- it's taken us frankly a little longer than I would have thought to just get the infrastructure up and running to support this aspect of that virtual brand, but it's up now. It's just recently been put up, as I mentioned. The website is up. You can go to ijw.com, and you can order wings to go or you can order them through delivery also on our website. So now it's just about how do we get some awareness of that brand.

And so we will spend behind it. But again, it's a very efficient spend, a very targeted spend. We know who this target is. There's a lot of online opportunities. There's a lot of -- so it's not like you're going to see national television advertising around the IJW brand. But we will spend some time and energy here in the next quarter or 2, really seeing how much awareness we can create and how much business we can drive.

So you've got 2 ways now between Google and the website to find the brand for a takeout opportunity. And so now we're going to continue to build that. More on that probably in the next couple of calls we'll keep you posted on how we're seeing that initiative kind of build.

Brian Hugh Mullan - *Deutsche Bank AG, Research Division - Research Analyst*

And then just as a follow-up. I saw the Board reinstated the share repurchase program. It's encouraging to see. Joe, could you just speak to your philosophy there opportunistic repurchase versus perhaps more programmatic repurchase? And the share count range you've provided with the guidance is somewhat wide. Can you just confirm does that just have to do with the pace of buybacks, which is maybe unknown at this point?

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Joseph G. Taylor - *Brinker International, Inc. - Executive VP & CFO*

Yes. I think that's an accurate way to think about it. Again, we appreciate the support and the bullish statement, I think that the Board is making on how they're viewing the business with the reinstatement of that program. Again, we're going to first and foremost use our cash to invest in the business. You're seeing that, that heightened level of CapEx, which I think will be maintained. We're going to continue to delever on a metric basis.

I would anticipate getting down into the lower 3s We finished at 3 6. We're going to continue to pay debt down and grow the business. It will allow that metric to continue to move lower as we go forward, but we generated a lot of cash. And at that point, there's still cash that we now have the ability to return to shareholders. I like to be both opportunistic and programmatic at the same time. So we do generate cash on an ongoing basis.

And depending on where we are in any of those other given programs, we'll deploy it. I would expect that to be over the course of the fiscal year. We have not been into the market, obviously, yet, but that will be coming down the road. That WAS guidance does incorporate some thinking about what might go on in this fiscal year.

Operator

Our next question today is coming from Nicole Miller Regan at Piper Sandler.

Nicole Marie Miller Regan - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

Great update. Two quick ones on our side from us. The first is on the store level margin, where the commentary so far is very helpful. I was very curious on It's Just Wings impact on the P&L, specifically, obviously, store level margin. I'm thinking there, its contribution there, is it something you can call out? And then wing prices have been sky high, I think, moderating a bit. So maybe you could net out the transitory nature of that too, and we could start to understand that for modeling purposes for next year as well?

Joseph G. Taylor - *Brinker International, Inc. - Executive VP & CFO*

Yes, Nicole, I'm going to defer on several of those. We haven't broken out a lot of the dynamics in a specific level. It is definitely a positive contribution to that store level margin. Again, we look at an allocated P&L for the virtual brands. And I think we've talked about before that it generally is north of 30%. A lot depends on what you're doing in any given time period from a marketing standpoint because, again, I want to fully allocate the cost as we can, but they do lever the store P&L, which is, again, that nice piece of the volume increases that you see coming out of the virtual side of the equation.

We've noticed a little elevated price on the wing side of the equation. And we've had to make some adjustments in our cost dynamics on wings. But we've obviously maintained supply and ability to keep that product in front of the consumer. Just a great job by our supply chain team and a very unique in that times trying environment for them. So they are elevated. I think at some point, you will see that dynamic shift and that will accrue to the benefit of that brand.

At the -- I would anticipate, Nicole, a fairly robust discussion around virtual brands at the Analyst Day in the not too -- so hopefully, I'm going to defer some of the specifics to then, but more insights to come.

Wyman T. Roberts - *Brinker International, Inc. - CEO, President & Non-Independent Director*

Yes. The only thing I'd add, Nicole, is obviously because of the incrementality, the high incrementality of those sales to our business, the flow-through and the profitability are impressive and important.

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Nicole Marie Miller Regan - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

And then just on Maggiano's. I mean you kind of clued us in to be realistic, if not cautious, but I would be curious just what kind of behavior you expect for the upcoming holiday season? And do you have any indications yet of requests for private dining or parties are catering or anything of that nature?

Wyman T. Roberts - *Brinker International, Inc. - CEO, President & Non-Independent Director*

Well, as you can see in the information we shared in the release, the movement from just fourth quarter to July was impressive at Maggiano's. And so as we were working as a country out of COVID and people are starting to feel comfortable again about socializing, we saw the part of the business that was really being curtailed the most, which was their banquet business and their catering business start to come back, and it's ahead of schedule from our perspective. It's mostly social. So the business side of the equation hasn't come back as much yet. But obviously, you can see they're running again above the '19 numbers in July. So those are all very positive things.

What that portends for the holiday season? I mean, I wish I could tell you, Nicole, we're optimistic. But we're also being cautious both because, again, the pandemic isn't quite totally put to bed with this whole Delta variant and we're not exactly sure what that -- what the status will be. I think if we get some clear road prior to the holiday season from a pandemic standpoint, we'll see a pretty robust banquet business in the holiday season.

We know consumers want to gather. We know they're ready to celebrate together and eat together. And if there's permission to do that in a comfort -- a level of comfort around that, then I think we're going to see a good season. But we're all just kind of waiting to see.

Operator

Our next question today is coming from Andrew Strelzik at BMO.

Andrew Strelzik - *BMO Capital Markets Equity Research - Restaurants Analyst*

I was hoping, first, you could do a little bit more comparing and contrasting between what you're seeing or expecting at Maggiano's Italian Classics and It's Just Wings. You mentioned the check, the occasion, anything else that we should be mindful of as we think about that rollout? And if you can comment on the margins of the flow-through compared to It's Just Wings that would be helpful as well?

Wyman T. Roberts - *Brinker International, Inc. - CEO, President & Non-Independent Director*

I mean we're not going to get too specific, Andrew. I mean I think I've given you most of the color, I'll probably give you on how the brand plays. The biggest difference, I think, is just what we've talked about in terms of rollout. I mean we were comfortable enough to roll -- because of what was happening primarily in the dining rooms with a lot of constraints we felt we could focus on rolling out the Wings brand overnight to 1,000 restaurants.

Well, obviously, our dining rooms are busy again, and we've got a lot of things going on in the restaurants with some initiatives like TSE that we've talked about that are requiring us to support our restaurants on a more kind of moderated basis as we roll this brand. So it's not going to hit like wings hit. It's going to be rolled out throughout the year. But our energy and our excitement about the brand are comparable, I would say.

We like both of these brands a lot. We think they -- there are -- it's manageable, first of all, within our system to really leverage these assets and drive continued growth within the assets that we have, and it delivers a great guest experience.

The return rate on It's Just Wings is exceptional based on the information we get from DoorDash. So once we get trial, we get really good repeat. And I think we'll see the same thing with the Maggiano's Classics. So again, we're just focused on getting it into the restaurants in a way that our operators can execute it and then building these brands over the next really years to come.

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Andrew Strelzik - *BMO Capital Markets Equity Research - Restaurants Analyst*

Okay. That's helpful. And I wanted to also ask on the food cost side. And I apologize if I missed this, but how much visibility do you have from contracting to the inflation outlook that you gave on the food cost side? Is there anything that we should be mindful of from a cadence perspective? And just from suppliers, your conversations with suppliers, what's kind of the tone and kind of the expectation about sustainability? I know it's a tough one to call, but just any insights you could provide there would be really helpful.

Wyman T. Roberts - *Brinker International, Inc. - CEO, President & Non-Independent Director*

Yes. Again, we have a good contract positioning is really most of contracting running the rest of this calendar year, some of it runs into the first quarter of next calendar year, so the back half of our fiscal year. We see a higher level and actually a significantly higher level of our inflation beliefs is built into the back half of this -- of our fiscal year due to that contracting.

So again, good contracts in place, we've had at times during the last quarter discussions with some of our partners on where contract levels are and volumes, price and things of that nature. We've adjusted a couple in conjunction with them on the chicken side of the equation. I think that's gotten the highest level of dialogue around the industry and that those issues have been real. We've managed through them through those kinds of adjustments. But again, we're comfortable with the inflation that we have built into our thought process here that I talked about, and it is a more back half of the year thought process.

Operator

Our next question today is coming from Jeff Farmer at Gordon Haskett.

Jeffrey Daniel Farmer - *Gordon Haskett Research Advisors - MD & Senior Analyst of Restaurants*

We've discussed a lot of P&L lines this morning, and I was just hoping to get a little bit more context color on the G&A line. So specifically, will 2022 be an incentive compensation reset year? And will there be any other factors that could potentially push that G&A number well above or just above the 2021 number?

Joseph G. Taylor - *Brinker International, Inc. - Executive VP & CFO*

No, Jeff. I think it's going to be a relatively consistent year in that regard. Again, we build our beliefs around G&A based on hitting targets and things of that nature. So I think we accommodate the incentive compensation pretty well. I always like to have an upside to G&A from an incentive standpoint if that works. I think you'll see from a dollar basis, you're probably up in the $8 million to $12 million range, I think, in that range.

But as a percent of sales, I want to -- I would assume you could model relatively close to 4%, low 4s, let's say, 4% to 4.2% and be right in line with our thinking on that specific line item.

Wyman T. Roberts - *Brinker International, Inc. - CEO, President & Non-Independent Director*

And most of that, Jeff, is really...

Joseph G. Taylor - *Brinker International, Inc. - Executive VP & CFO*

(inaudible) way down the P&L as we go on our...

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Wyman T. Roberts - *Brinker International, Inc. - CEO, President & Non-Independent Director*

I just -- and on the G&A front, some of that -- the bulk of that is really instituting some programs that we had to restrict as we got into COVID, right? And so it's putting those that's getting a little more travel now as people are getting back out and moving around. So pretty much in line with our history in terms of how we run a very very efficient restaurant company.

Jeffrey Daniel Farmer - *Gordon Haskett Research Advisors - MD & Senior Analyst of Restaurants*

That's helpful. And just one more unrelated on the off-premise mix. I believe you said Chili's was, I think, the quote was more than 30%. So question is what the more precise percentage is for Chili's off-premise? And then your updated thoughts on where you think that, that Chili's off-premise mix will settle as we get further sort of past COVID or we move past COVID?

Joseph G. Taylor - *Brinker International, Inc. - Executive VP & CFO*

Yes, Jeff, it is staying very consistently in, let's say, that 33% to 35% range throughout the quarter. And I think as we -- so we've seen more and more and more evidence as we've kind of gone through the last year based on recovery curves that, that, let's say, the 32% to 35% range is going to be the sweet spot going forward.

Wyman T. Roberts - *Brinker International, Inc. - CEO, President & Non-Independent Director*

Yes. The only thing that's still out there, Jeff, and we'll keep you posted as we learn, but there's still a lot of concern about COVID with consumers. And I think there are still some consumers that are preferring take out to dine in still. And as -- because our take-out business is really the thing that surprised us. The strength that takeout has been the biggest surprises.

Dining rooms have opened, we thought maybe more people would move back into the dining room, and we haven't seen quite as much. So that could take a little while for everybody to get kind of back to, hey, I'm not going to restrict my preferred choice by an outside influence like a COVID.

Operator

Our next question today is coming from Brian Vaccaro at Raymond James.

Brian Michael Vaccaro - *Raymond James & Associates, Inc., Research Division - VP*

I just wanted to start with clarifying two items on your comments during the Q&A. So first on commodities, just to make sure I heard correctly, you expect the second half to be significantly higher than the first half. So we might be only talking about slightly inflationary in the first half and then maybe high singles in the second half. Did I hear that correctly, Joe?

Joseph G. Taylor - *Brinker International, Inc. - Executive VP & CFO*

I didn't give you specific high singles or that. I think we have more inflation built in to the second half of the year. That's based on the contract structures we have out there. There's obviously some inflation that will work its way into the first half of the year. A lot of those are spot market-driven items. You think about produce, avocados, things of that nature, you'll probably see some inflation in that regard. You may see some inflation on the ground beef side of the equation.

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But our beliefs around inflation based on current markets that we're looking at and the timing of contracts lead us down a path of more inflation in the second half of the year. Now markets can change, and we'll update you as we kind of move through and get closer to some of those time frames.

Brian Michael Vaccaro - *Raymond James & Associates, Inc., Research Division - VP*

Okay. That's helpful. And then on the off-premise sales mix, you were talking about kind of that 33%, 35% range. So that's the -- do you have the tight number for the fiscal fourth quarter? And where was quarter-to-date? Is it also in that 30% to 33% range at Chili's?

Joseph G. Taylor - *Brinker International, Inc. - Executive VP & CFO*

At Chili's, for the fourth quarter, we were 36% to 37% range, a little bit above that fourth quarter. We don't have a year -- I don't have a quarter-to-date. It's probably -- I'm pretty comfortable it's going to be consistent with that. You're not going to have maybe a slight downward variance from that.

Brian Michael Vaccaro - *Raymond James & Associates, Inc., Research Division - VP*

Okay. And within that, thinking about third-party delivery versus takeout, what kind of changes are you seeing within the mix of your off-premise mix as you've moved through has it shifted? I think it was 60-40 prior? Have you seen much shift in the 2 channels?

Joseph G. Taylor - *Brinker International, Inc. - Executive VP & CFO*

No, I think -- again, I think we're seeing a pretty consistent flow of those channels in the business right now.

Brian Michael Vaccaro - *Raymond James & Associates, Inc., Research Division - VP*

Okay. Great, great. And then I guess my question, I wanted to just circle back on labor, if we could. Could you just give a little more color on the restaffing progress that you've made in recent months? Perhaps you can level set where -- I know it's isolated, but maybe level set just where current staffing levels are on average versus '19 or perhaps versus some targeted level at recent sales volumes that you're working towards?

Wyman T. Roberts - *Brinker International, Inc. - CEO, President & Non-Independent Director*

Yes. I mean, in general, when you look at the overall number of team members we have, Brian, we're at staffing levels that are equivalent to pre-pandemic. Now that every restaurant probably could use another body or 2, but that's not unusual for the restaurant industry. You could always use another cook or another server in most restaurants on any given even day. So that's not a real issue.

The real issue is more where you're down several, primarily especially in the heart of the house. So what we've seen is especially in the one thing we have seen as some of the stimulus is kind of abated. We've seen front of the house, so servers become more available, not as big an issue for us with front of the house, heart of the house is still a little bit more challenged in those areas.

Again, this isn't a nationwide issue. But in those pockets where we're more challenged with staffing, those are the bigger issues. It's getting the kitchen staff is the biggest challenge. And again, we're making good progress, but we've still got a little ways to go.

Joseph G. Taylor - *Brinker International, Inc. - Executive VP & CFO*

And again, I would add to that, Brian, I think it's important from our perspective is that's opportunity for us.

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Wyman T. Roberts - *Brinker International, Inc. - CEO, President & Non-Independent Director*

Yes.

Joseph G. Taylor - *Brinker International, Inc. - Executive VP & CFO*

Again, as we bring more stability to those pocketed areas, you're going to see some capacity opportunities, too. So we look at it as upside from where we go from here.

Wyman T. Roberts - *Brinker International, Inc. - CEO, President & Non-Independent Director*

Yes. Our sales were absolutely impacted in the quarter because we weren't at full staffing capacity capabilities. And so as we get fully staffed, which we anticipate doing soon, that's opportunity, as Joe said.

Operator

Our next question today is coming from John Glass at Morgan Stanley.

John Stephenson Glass - *Morgan Stanley, Research Division - MD*

And can you just talk a little bit about where you stand on the reimaging for Chili's? I know probably last year or this past fiscal year, it slowed down. Where are you in the estate?

And if you think about remodeling going forward, have the plans changed? You've got virtual brands now versus 2 years ago, you didn't. You've got a bigger off-premise business, so are you thinking about how and how much and how you spend on remodeling differently now?

Joseph G. Taylor - *Brinker International, Inc. - Executive VP & CFO*

John, we're back full bore on the reimage side of the equation. Right now, we're actually focused very heavily in the Midwest, which was the acquisition we did 2 years. Those probably are in most cases getting fuller reimages because they had not necessarily been reimaged at the same level and pace that we had done the brand. So a little more higher spend and intensity there on those reimages and you get a nice incremental lift out of that, too, when you do a full reimage.

We probably still have a couple of years to go, 2.5 years or so, on the reimage program. Over time, when I think about the base reimages outside of those acquired restaurants, that spend has come down as we've kind of perfected our thinking and understood where the bang for the buck really was. So you've seen a decrease in the individual spend on any given restaurant.

But we're also looking very specifically a lot of opportunities within the restaurant base where can I do a more fulsome bar reimage for instance, and things of that nature that can really help increase volumes with any one given restaurant. So we have the general program and approach, but we're also trying to be very systematic and looking at great opportunities on individual restaurant basis as to. But that's a program that's going to continue for the next couple of years as we kind of move through that process.

Wyman T. Roberts - *Brinker International, Inc. - CEO, President & Non-Independent Director*

One thing we have done, John, this is Wyman. I think we've gotten really good at it. As we remodel thinking about future R&M expense. And how do we take these reimage investment dollars and help offset future R&M costs that we experienced. So 2 examples. One is the new awnings that

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we're putting on at Chili's, they're metal. We're not going to be dealing with faded painted awnings that become a challenge on a cycle and show up in your R&M expense. We are also excited about Maggiano's reimage program that will kick off here pretty soon.

And a lot of the dollars that go into that reimage are going to make the building and the experience much better, but they're also going to take out some of the things that really drive up the cost to maintain that restaurant. So changing finishes out, changing some of the products out that need to be changed out, but changing amount with a product that's a lot easier to maintain. And so those are some of the things we're doing as we kind of keep moving through and refreshing and keeping the brands relevant through time.

Joseph G. Taylor - *Brinker International, Inc. - Executive VP & CFO*

John, from an off-premise standpoint, we haven't had to change our thinking too much within the reimage process based on that dynamic. We have brought, as we've talked in previous calls before a new off-premise system on how we move actually the food from line out to the cars into play. It's production capabilities in shelving and the technology that we're now using to manage the parking lot that helps in that. But we haven't had to make a lot of structural physical changes to make that happen.

Our new restaurant design, we have adjusted very slightly to increase the ability -- the size and the ability to flow food through that side door. We just opened a brand-new restaurant here in Dallas just a week or so ago. I was in there last week. And that dynamic really works well and looks great and how you help off-premise. So we're incorporating it where we can, but the systems we're putting in place to support that, that line of business are probably more important in the physical space changes.

John Stephenson Glass - *Morgan Stanley, Research Division - MD*

So at Chili's, obviously, there was a different lap than in prior quarters. Dining rooms were opened, so you've probably got some higher alcohol sales. Is there anything else in mix that's notable? Consumers are buying premium products, for example. Should we think about this kind of mix dynamic playing out similarly over the next couple of quarters as you cycle the negative mix from a year ago?

Wyman T. Roberts - *Brinker International, Inc. - CEO, President & Non-Independent Director*

Yes. I think the biggest one, John, is just alcohol sales. As dining rooms are open, the biggest thing we've seen is just alcohol sales, and that's always been the case, right? First, you can't sell it in a lot of places. And secondly, beverage sales in general is what you pick up the biggest incremental mix benefit of getting dining rooms up and running and that's what helps the check average the most.

Operator

Our next question today is coming from John Ivankoe at JPMorgan.

John William Ivankoe - *JPMorgan Chase & Co, Research Division - Senior Restaurant Analyst*

Happy National Fajita Day. I just got a notification from you (inaudible).

Wyman T. Roberts - *Brinker International, Inc. - CEO, President & Non-Independent Director*

You've have noticed that. There you go.

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John Stephenson Glass - *Morgan Stanley, Research Division - MD*

Literally it came in during the conference call. So the question is on other OpEx. Normally, that's a line item that has a lot of fixed costs, including marketing, which is -- I know it's a percentage of sales, which is normally relatively steady. But fiscal '21 presumably was not a run rate year, things like advertising, repair and maintenance, maybe insurance and some other cost items that came out through at least the first half of the year.

So the question is, I mean, how do you think about that cost category as a percentage of sales, especially as your comps improve? And Obviously, I understand there's probably a lot of benefit in the fourth quarter from the 14th week in that line as well. So I just want to make sure that we're all on the same page for that cost category.

Joseph G. Taylor - *Brinker International, Inc. - Executive VP & CFO*

Yes, John, again, I think we'll continue to maintain the marketing strategy that we deployed really going on 2 years -- 2.5 years now. So we're comfortable that we have enough marketing firepower built into the other OpEx. As I think you know, we really think about marketing in a different mindset now where a lot of quote your marketing expense is going to show up in your net comp line as we use that digital capability and that one-to-one contact with our loyalty guests to drive traffic also. It continues -- there's a leverageability opportunity.

Again, when we think about margins and think about top line growth, that restaurant expense, other OpEx, as you've referred to it, is going to be a point of leverage because it does contain a lot of fixed costs within it. So I think there is a year-over-year opportunity to expand margins generally, but specifically in that category, too. And have some fajitas, John.

Operator

Our final question today is coming from Jeffrey Bernstein at Barclays.

Jeffrey Andrew Bernstein - *Barclays Bank PLC, Research Division - Director & Senior Equity Research Analyst*

Just two questions. The first one on the unit growth following up from the comments earlier. Joe, I think you mentioned opening 20 plus per year. I think you said starting in the back half of this coming year. So I just want to make sure I understand that correctly that, that is kind of your run rate assumption for the next few years would be 20 units plus?

And maybe if you can share any color in terms of whether by brand or U.S. versus international, how we should think about this acceleration in unit growth to the north of 20 that you mentioned earlier?

Joseph G. Taylor - *Brinker International, Inc. - Executive VP & CFO*

Yes. And again, the comments there relate to the Chili's domestic side of the equation. We have a pipeline already that's starting to push north of 20. I would expect based on timing of construction and actual opening that you'll probably see somewhere in the 6 to 8, maybe push towards 9 in this fiscal year because of the pause in real estate and construction that's also probably going to be more of those in the back half of the year. So not as big of an impact in '22, but the pipeline then moves very quickly up towards that high teens 20 -- low 20s.

So you'll start to see that in '23 really come to realization. And our intent is to continue to maintain and build that pipeline in that, let's say, 20 to 25 range as we kind of go forward from here. So again, some nice organic growth and will start flowing back into the system.

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Wyman T. Roberts - *Brinker International, Inc. - CEO, President & Non-Independent Director*

It really was made possible, Jeff, as we made the acquisition of the Midwest restaurants and as we look at opportunities in these areas where franchisees just haven't developed as rapidly as we have. It just opens up additional real estate opportunities for us that we're excited about getting into.

And as we've now started to open some of those restaurants in these markets. We're really pleasantly surprised by the reception the brand is getting and we're excited about getting more restaurants open, not only in Texas where we have quite a few, but in other parts of the country.

Jeffrey Andrew Bernstein - *Barclays Bank PLC, Research Division - Director & Senior Equity Research Analyst*

And Wyman, that's a great segue. I feel like you were beating all of us in your prepared remarks when you talked a couple of times about being much more convinced and sold on the company-operated model. Just wondering whether you could provide any color behind that? I mean you mentioned there are some scale benefits when you go through issues like we've gone through. Is there any thought in terms of whether it's going to be buying in existing U.S. franchisees? I'm wondering whether there's right of first refusal opportunities. I know you currently have like a 15% plus mix of franchising.

But that, coupled with your commentary around maybe wanting to accelerate growth where franchisees might not want to. Just wondering what your thoughts are in terms of that franchise mix U.S., I guess, or international?

Wyman T. Roberts - *Brinker International, Inc. - CEO, President & Non-Independent Director*

Well, I mean, Jeff, I think just looking at our history, you can see, obviously, we believe in the company-owned model. We've got the majority of our U.S. restaurants are company owned. We have a couple of good franchise partners still out there. And we're obviously having conversations with them about what's their future look like. And are they -- how excited are they about growing the brand and staying connected with all of the things we're doing, that's my commentary on ownership really has to do with these investments we make in getting the scale leverage beyond the supply chain, because obviously, you can do that in a franchise system.

But really across everything across technology, across the position of the brand, across the operating systems. We're moving at a rapid pace. You start to do virtual brands and keeping everything in sync in a restaurant is hard to do even with good franchise partners. I mean there's a lot of moving parts to a casual dining restaurant. And so we do believe in that. We're going to continue to look for opportunities, and we'll have these conversations, and we're excited about the potential.

Joseph G. Taylor - *Brinker International, Inc. - Executive VP & CFO*

Kate, I think we're all wrapped up. Mika?

Mika Ware - *Brinker International, Inc. - VP of Finance & IR*

Yes. Thank you, everyone, for joining us on the call. Have a wonderful day.

Wyman T. Roberts - *Brinker International, Inc. - CEO, President & Non-Independent Director*

Thanks, everyone.

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Operator

Thank you, ladies and gentlemen. This does conclude today's event. You may disconnect at this time, and have a wonderful day. Thank you for your participation.

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